

Consolidated Financial Statements for the Six Months Ended June 30, 2018 (IFRS)

These financial statements have been prepared for reference only.

August 10, 2018

Link and Motivation Inc.

Code number: 2170

Representative: Yoshihisa Ozasa, Chairman and Representative Director

Contact: Shunichi Ohno, Director and

General Manager of Group Design Office

Filing of Quarterly Report (*Shihanki Hokokusho*) (scheduled):

Start of distribution of dividends (scheduled):

Supplementary documents for quarterly results:

Quarterly results briefing:

Stock exchange listing: Tokyo

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August 10, 2018

September 25, 2018

No

Yes

(Amounts are rounded down to the nearest million.)

1. Consolidated Results for the Six Months Ended June 30, 2018 (January 1, 2018 – June 30, 2018)

(1) Revenues and Income (Percentages represent change compared with the same quarter of the previous year.)

	Revenues (¥ million)	Change (%)	Operating income (¥ million)	Change (%)	Income before income taxes (¥ million)	Change (%)	Net income (¥ million)	Change (%)
Six months ended June 30, 2018	19,985	10.8	2,115	31.4	2,098	34.8	1,345	33.1
Six months ended June 30, 2017	18,031	7.8	1,609	18.9	1,556	22.6	1,010	3.7

	Net income attributable to owners of the parent (¥ million)	Change (%)	Comprehen- sive income (¥ million)	Change (%)	Basic earnings per share (¥)	Diluted earnings per share (¥)
Six months ended June 30, 2018	1,374	35.2	1,731	(15.9)	13.01	—
Six months ended June 30, 2017	1,016	4.2	2,057	20.0	9.62	—

(2) Financial Position

	Total assets (¥ million)	Total equity (¥ million)	Equity attributable to owners of the parent (¥ million)	Ratio of equity attributable to owners of the parent to total assets (%)
As of June 30, 2018	26,327	8,080	8,104	30.8
As of December 31, 2017	25,770	6,697	6,692	26.0

2. Dividends

	Dividends per share (¥)				
	1st Qtr.	2nd Qtr.	3rd Qtr.	Year-end	Total
2017	1.50	1.50	1.60	1.60	6.20
2018	1.70	1.70			
2018 (est.)			1.70	1.70	6.80

Note: Revisions since the most recently announced dividend forecast: No

3. Forecast of Results for 2018 (January 1, 2018 – December 31, 2018)

(Percentages represent change compared with the previous fiscal year.)

	Revenues		Operating income		Net income		Net income attributable to owners of the parent		Basic earnings per share (¥)
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	
Full-year	40,700	10.3	4,120	22.4	2,530	20.7	2,530	20.0	23.95

Note: Revisions since the most recently announced forecast of results: No

Notes

- (1) Changes in Significant Subsidiaries during the Period: No
- (2) Changes in Accounting Policies and Changes in Accounting Estimates
 - (a) Changes in accounting policies required by IFRS: Yes
 - (b) Changes in accounting policies other than (a) above: No
 - (c) Changes in accounting estimates: No
- (3) Number of Shares Issued and Outstanding (Common Stock)
 - (a) Number of shares at the end of the period (including treasury stock)
Six months ended June 30, 2018: 113,068,000; Year ended December 31, 2017: 113,068,000
 - (b) Number of treasury shares at the end of the period:
Six months ended June 30, 2018: 7,445,700; Year ended December 31, 2017: 7,445,700
 - (c) Average number of shares outstanding (cumulative with earlier quarters):
Six months ended June 30, 2018: 105,622,300; Six months ended June 30, 2017: 105,622,300

*** These Quarterly Financial Statements Are Not Subject to Quarterly Review by a Certified Public Accountant or an Auditing Corporation**

*** Explanation of the Proper Use of Performance Forecasts and Other Special Instructions**

Consolidated forecasts and other statements regarding the future contained in this document are based on information currently available to the Company and certain reasonable assumptions. Actual performance may differ substantially due to numerous factors.

Contents of Attachments

1. Overview of Results of Operations and Other Information	2
(1) Overview of Results of Operations for the Six Months Ended June 30, 2018	2
(2) Overview of Financial Condition for the Six Months Ended June 30, 2018.....	7
(3) Overview of Cash Flow for the Six Months Ended June 30, 2018.....	7
(4) Forecast	7
(5) Important Information Regarding Assumption of Going Concern	7
2. Condensed Quarterly Consolidated Financial Statements	8
(1) Condensed Quarterly Consolidated Balance Sheets	8
(2) Condensed Quarterly Consolidated Statements of Operations and Condensed Quarterly Consolidated Statements of Comprehensive Income	10
(3) Condensed Quarterly Consolidated Statements of Changes in Equity	14
(4) Condensed Quarterly Consolidated Statements of Cash Flow	15
(5) Notes to Condensed Quarterly Consolidated Financial Statements	16
Changes in Accounting Policies	16
Notes Regarding Assumption of Going Concern	16
Significant Subsequent Events	16

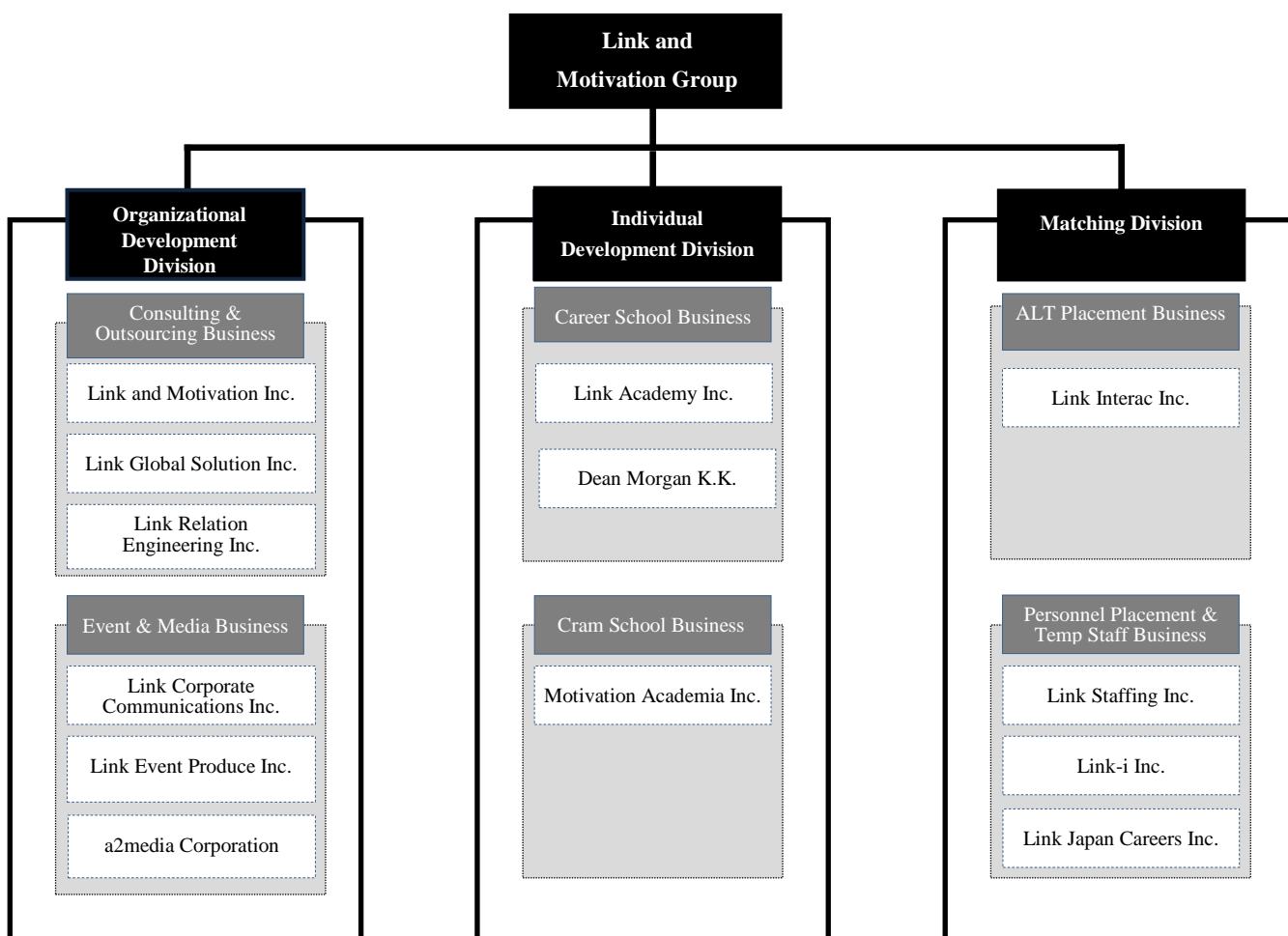
1. Overview of Results of Operations and Other Information

(1) Overview of Results of Operations for the Six Months Ended June 30, 2018

In the Japanese economy during the first half of 2018 (January 1, 2018 – June 30, 2018), corporate production activities and capital investment were on a recovery track and personal consumption, which had been in a persistent slump, also grew in tandem with an increase in leisure time due to Japanese society’s promotion of work style reform. As a result, the economy was on an overall moderate recovery trend. Moreover, the Link and Motivation Group (the “Group”) supports the transformation of numerous companies and individuals using “Motivation Engineering,” which is the Group’s core technology, backed by psychology, behavioral economics, social systems theory and other disciplines, under its corporate philosophy: “Through Motivation Engineering, we provide opportunities to transform organizations and individuals and create a more meaningful society.” The market also grew moderately in industries related to the Group, with increased demand for higher labor productivity and facilitation of personnel recruiting associated with the promotion of work style reform.

In this economic environment, revenues and each level of income increased substantially. Revenues of the Group were ¥19,985 million (a 10.8% increase compared with the same period of the previous year), gross profit was ¥7,929 million (an 18.2% increase), operating income was ¥2,115 million (a 31.4% increase) and net income attributable to owners of the parent was ¥1,374 million (a 35.2% increase).

The segment and business classifications of the Group are as shown below, and an overview of the first half of 2018 by segment and business follows.



Organizational Development Division

The Organizational Development Division offers corporate customers services that provide support for building and strengthening relationships with a company's stakeholders (employees, job applicants, customers, shareholders) using "Motivation Engineering," which is the core technology of the Group.

In this segment, due to strong performance by each business, segment revenues for the first half of 2018 increased substantially compared with the same period of the previous year to ¥6,703 million (a 13.6% increase). In addition, with the contribution of strong performance by the Consulting & Outsourcing business, which has a high profit margin, segment income increased substantially to ¥4,518 million (an 18.6% increase). An overview of operating results by business for the first half of 2018 is as follows.

Consulting & Outsourcing Business

The Consulting & Outsourcing business acts under the concept of creating numerous "Motivation Companies" in which employee motivation is a company's growth engine. As its method of providing services, the business diagnoses the state of a company's motivation based on its original diagnostic framework and offers various one-stop solutions for innovations related to organizations and personnel, including recruiting, training, framework and corporate culture.

In this business, revenues for the first half of 2018 were ¥5,126 million (a 9.2% increase) and gross profit was ¥4,112 million (a 25.1% increase). Results by product in the Consulting & Outsourcing business were as follows.

Table 1. Revenues by Product

Product (¥ million) [Gross profit in brackets]	Six months ended June 30, 2017	Six months ended June 30, 2018	YoY change (%)
Consulting & Outsourcing Business	4,691 [3,284]	5,126 [4,112]	9.2 25.1
Consulting	2,058	2,286	11.1
Package	1,578	1,455	(7.8)
Member/database services	474	909	91.7
Outsourcing	580	475	(18.1)

In the first half of 2018, revenues increased and gross profit increased substantially compared with the same period of the previous year due to significant growth in sales of highly profitable Consulting and Member/database services including Motivation Cloud.

Progress in the number of contact points that have adopted the cloud-based service for organizational improvement Motivation Cloud, which is a key indicator for the Group, was as follows.

Table 2. Number of Contact Points and Average Monthly Fee Revenue for Motivation Cloud at Quarter-End

	2017				2018	
	March	June	September	December	March	June
Number of contact points	155	234	343	430	505	576
Monthly fee revenue (¥ thousand)	20,804	32,108	45,043	60,716	72,086	92,998

Motivation Cloud is the first HR Tech (people x technology) cloud service in Japan for managing employee engagement (mutual understanding, empathy and commitment between companies and employees). We began providing this monthly pay-as-you-go product in July 2016, and it has performed well. The cumulative number of contact points that have adopted Motivation Cloud steadily grew to 576 as of the end of June 2018.

During the first half of 2018, there was substantial progress in the number of contact points that have adopted Motivation Cloud. The recent environmental change of shifting to adapt to the labor market to target human resources, both employees and job applicants, is a management issue for many companies. Amid these circumstances, improving employee engagement through corporate organizational activities is a key management theme. However, the absence of a "yardstick" for visualizing the state of the organization and of a PDCA cycle for truly achieving organizational improvements has been an issue for many organizational activities. Against this backdrop, capturing companies' rising

needs for organizational transformation has led to a substantial increase in the number of contact points for Motivation Cloud. Motivation Cloud is smoothly generating stable revenue, and total monthly fee revenue for June 2018 was ¥92,998 thousand. The business is progressing toward its target of total monthly fee revenue of ¥130,000 thousand in December 2018.

Event & Media Business

The Event & Media business produces events and media for various types of communication associated with business activities to support the “creation of Motivation Companies” at corporations. In its event production, the business offers assistance in stimulating the interest and promoting the understanding of stakeholders through support for creation of forums such as anniversary events, recruiting presentations, promotional events and shareholders’ meetings. In its media production, the business is involved in printed media such as company newsletters, corporate brochures and annual reports for shareholders, as well as web-based media such as corporate websites and investor relations (IR) sites and visual media such as videos that explain products and webcasts of shareholders’ meetings.

In this business, revenues for the first half of 2018 were ¥2,001 million (a 2.1% decrease) and gross profit was ¥612 million (a 9.4% decrease). Results by product in the Event & Media business were as follows.

Table 3. Revenues by Product

Product (¥ million) [Gross profit in brackets]	Six months ended June 30, 2017	Six months ended June 30, 2018	YoY change (%)
Event & Media Business	2,044 [676]	2,001 [612]	(2.1) (9.4)
Event production	1,339	787	(41.2)
Media production	704	1,213	72.4

In the first half of 2018 revenues decreased slightly and gross profit decreased substantially compared with the same period of the previous year as the business made an intentional substantial reduction in event production, which had previously been ordered by the Consulting & Outsourcing business, while on the other hand revenues from IR-related media production grew with the addition of a new company to the Group.

The business will work for growth by developing products with greater advantages using “Motivation Engineering,” the Group’s core technology.

Individual Development Division

The Individual Development Division applies “Motivation Engineering,” which is the core technology of the Group, to businesses in areas including career schools and cram schools, to offer individual customers “career navigation” services, which provide total support for independent and autonomous career creation.

In this segment, due to firm performance in each business, segment revenues for the first half of 2018 were ¥3,912 million (a 16.3% increase) and segment income was ¥1,450 million (a 34.3% increase). An overview of operating results by business for the first half of 2018 is as follows.

Career School Business

The Career School business defines human resources who act independently and autonomously, without depending on an organization, as “i-Companies” and supports the production of numerous i-Companies. As for specific services, the business provides one-stop services for individual career advancement, targeting mainly university students and working adults, under the six service brands of “Aviva” personal computer schools, “Daiei” qualification schools, “Aviva Pro” programming schools, and “Rosetta Stone Learning Center,” “Rosetta Stone Premium Club” and “Hummingbird” foreign language schools.

In this business, revenues for the first half of 2018 were ¥3,583 million (an 8.3% increase) and gross profit was ¥1,310 million (a 19.2% increase). Results by product in the Career School business were as follows.

Table 4. Revenues by Product

Product (¥ million) [Gross profit in brackets]	Six months ended June 30, 2017	Six months ended June 30, 2018	YoY change (%)
Career School Business	3,306 [1,099]	3,583 [1,310]	8.3 19.2
Office	1,478	1,523	3.1
Pro Series	426	484	13.7
Accounting courses	292	289	(1.1)
National exam courses	286	335	17.1
Civil servant courses	662	673	1.6
Educational materials/other	86	93	8.7
English conversation	73	182	147.7

During the first half of 2018, revenues increased compared with the same period of the previous year due to steady sales of Pro Series, National exam courses and English conversation, and gross profit increased substantially due to significant improvement in school profitability with success in the rapid development and placement of new graduates in the workforce. Particularly for National exam courses, there was an increase in needs for acquisition of certifications such as certified social insurance and labor consultant and registered real-estate broker, backed by an increase in leisure time for individual workers due to work style reform. For English conversation, classes of a one-on-one English conversation school that joined the Group in April 2017 went on-line, and sales grew substantially with a rollout to more than 75 existing career schools.

In addition to working to enhance its lineup of courses and to improve their quality in order to raise its value as a total career school, the business will promote career navigation by focusing on comprehensive services from providing career guidance to offering employment opportunities in collaboration with the Personnel Placement & Temp Staff business.

Cram School Business

Unlike typical cram schools, the Cram School business operates under the business concept of producing numerous “i-Companies” in addition to improving the academic ability of its students. Its services consist of operating “Motivation Academia” cram schools for junior high and high school students to provide a place where students can not only prepare for school entrance exams but also develop skills to play a role in society. The business also operates “SS-1,” an individualized instruction cram school for students preparing for junior high school entrance exams. The Group’s Cram School business will utilize its assets in programming education and English conversation education to provide places for students from elementary school straight through to high school to develop skills that will be of use in society.

In this business, revenues for the first half of 2018 were ¥329 million (a 496.2% increase) and gross profit was ¥139 million (compared with a loss of ¥20 million in the same period of the previous year).

During the first half of 2018, revenues and gross profit both increased substantially compared with the same period of the previous year due to an increase in the number of schools in the Cram School business from 3 schools (June 2017) to 10 schools (June 2018) due to the addition to the Group in July 2017 of SS-1, an individualized instruction cram school for junior high school entrance exam takers. This business has only one product.

By further applying the know-how in training adults that has been cultivated in the Consulting & Outsourcing business, this business aims to achieve one-stop services unattainable by conventional cram schools, ranging from elementary to high school students and adults.

Matching Division

The Matching Division provides services under the concept of matching organizations with hiring needs and individuals who want to advance their careers through “motivation matching,” which applies “Motivation Engineering,” the core technology of the Group, to personnel placement and temp staff dispatch.

In this segment, segment revenues for the first half of 2018 were ¥10,190 million (a 6.7% increase) and segment income was ¥2,607 million (a 10.3% increase), both increasing compared with the previous year. An overview of operating results by business for the first half of 2018 is as follows.

ALT Placement Business

The ALT Placement business dispatches foreign assistant language teachers (ALTs) to elementary, junior high and high schools throughout Japan and provides English-language instruction services on contract. In this business, where barriers to entry are extremely high due to the importance placed on relationships of trust with customers and a company's track record, the Group has established the number-one share among private companies. In addition, Japan's English education market is expanding with the creation of a "Reform Plan for Cultivating Global Human Resources" by the Ministry of Education, Culture, Sports, Science and Technology (MEXT), looking ahead to the Tokyo Olympics to be held in 2020.

In this business, revenues for the first half of 2018 were ¥5,992 million (an 11.2% increase) and gross profit was ¥1,718 million (a 15.8% increase).

During the first half of 2018, revenues and gross profit both increased substantially compared with the same period of the previous year due to firm performance from precisely capitalizing on the expansion of English education promoted by MEXT. This business has only one product.

The business will work to strengthen hiring of foreign teachers with a view toward further growth in demand for ALTs in Japan.

Personnel Placement & Temp Staff Business

The Personnel Placement & Temp Staff business provides solutions in the form of introductions and temp staffing of the human resources an organization needs to grow. The main businesses include a new graduate recruiting and introduction business that connects university students looking for employment with company orientation meetings and interviews, a mid-career introduction business that matches working adults looking to change jobs with companies, and a temp staff business that dispatches personnel for sales, clerical work, and other fields. In addition, to capitalize on rising needs for employment of foreigners, the Personnel Placement & Temp Staff business also conducts a business that provides one-stop foreigner recruiting, training and labor support for companies that want to hire them.

In this business, revenues for the first half of 2018 were ¥4,527 million (a 4.7% increase) and gross profit was ¥1,148 million (a 10.6% increase). Results by product in the Personnel Placement & Temp Staff business were as follows.

Table 5. Revenues by Product

Product (¥ million) [Gross profit in brackets]	Six months ended June 30, 2017	Six months ended June 30, 2018	YoY change (%)
Personnel Placement & Temp Staff Business	4,323 [1,038]	4,527 [1,148]	4.7 10.6
Store sales temp staff	3,535	3,537	0.0
Office temp staff	322	317	(1.5)
Foreign worker support	131	286	117.5
Recruiting/introductions	333	386	15.8

During the first half of 2018, revenues increased and gross profit increased substantially compared with the same period of the previous year due to a focus on highly profitable Foreign worker support and Recruiting/introductions.

The business intends to raise matching efficiency and improve profitability through business synergy that links individuals who have improved their skills through the Group's Career School business to corporate dispatch and introductions.

Venture Incubation

In addition to its divisions, the Group conducts venture incubation. In venture incubation, the Group provides its know-how in organizational and personnel consulting in addition to funding, as well as supporting growing venture companies on an organizational level with the aim of listing their stock. The two main criteria for selection of investees are (1) sympathy with creating a "Motivation Company" and (2) aim to list stock. Gains on sales and other results generated from venture incubation are recorded as equity on the balance sheet.

(2) Overview of Financial Condition for the Six Months Ended June 30, 2018

Total assets as of June 30, 2018 were ¥26,327 million, an increase of ¥557 million from the end of the previous year. This was mainly due to factors including a ¥367 million decrease in cash and cash equivalents and a ¥612 million increase in other non-current financial assets resulting from acquisition of other non-current financial assets, among other reasons.

Total liabilities as of June 30, 2018 were ¥18,247 million, a decrease of ¥824 million from the end of the previous year. This was mainly due to factors including a ¥1,388 million decrease in interest-bearing and other financial liabilities.

Total equity as of June 30, 2018 was ¥8,080 million, an increase of ¥1,382 million from the end of the previous year. This was mainly due to recording net income attributable to owners of the parent.

(3) Overview of Cash Flow for the Six Months Ended June 30, 2018

Cash and cash equivalents (“cash”) as of June 30, 2018 were ¥1,286 million, a decrease of ¥367 million during the period.

Cash flow during the six months ended June 30, 2018 was as follows.

Cash Flow from Operating Activities

Net cash provided by operating activities was ¥1,938 million, an increase of ¥546 million compared with the same period of the previous year. The principal factor was an increase of ¥542 million in income before income taxes to ¥2,098 million.

Cash Flow from Investing Activities

Net cash used in investing activities was ¥487 million, a decrease of ¥2,012 million compared with the same period of the previous year. The principal factors were a decrease in payments for acquisition of property, plant and equipment of ¥744 million, a decrease in payments for acquisition of investment securities of ¥370 million and a decrease in payments for acquisition of subsidiary stock of ¥484 million compared with the same period of the previous year.

Cash Flow from Financing Activities

Net cash used in financing activities was ¥1,818 million. In the same period of the previous year, financing activities provided net cash of ¥2,956 million. The principal factors included a ¥3,830 million decrease in proceeds from long-term financial liabilities and a ¥415 million decrease in repayment of long-term financial liabilities.

(4) Forecast

There is no change from the forecast of consolidated results for 2018 announced in “Consolidated Financial Statements for the Year Ended December 31, 2017” dated February 14, 2018.

(5) Important Information Regarding Assumption of Going Concern

None applicable

2. Condensed Quarterly Consolidated Financial Statements

(1) Condensed Quarterly Consolidated Balance Sheets

(Millions of yen, rounded down to the nearest million)

	As of December 31, 2017	As of June 30, 2018
ASSETS		
Current assets		
Cash and cash equivalents	1,654	1,286
Trade and other receivables	4,929	5,056
Inventories	186	297
Other current financial assets	11	38
Current income tax assets	11	—
Other current assets	796	657
Total current assets	7,589	7,335
Non-current assets		
Property, plant and equipment	1,905	1,962
Goodwill	6,701	6,701
Intangible assets	1,534	1,736
Investments in associates	1,164	1,190
Other non-current financial assets	6,017	6,629
Deferred tax assets	506	508
Other non-current assets	350	263
Total non-current assets	18,180	18,992
Total assets	25,770	26,327

(Millions of yen, rounded down to the nearest million)

	As of December 31, 2017	As of June 30, 2018
LIABILITIES AND EQUITY		
LIABILITIES		
Current liabilities		
Trade and other payables	4,023	4,387
Interest-bearing and other financial liabilities	5,007	4,294
Income tax payable	883	862
Provisions	2	14
Other current liabilities	2,212	2,284
Total current liabilities	12,129	11,843
Non-current liabilities		
Interest-bearing and other financial liabilities	5,418	4,743
Provisions	440	433
Deferred tax liabilities	813	961
Other non-current liabilities	270	265
Total non-current liabilities	6,942	6,403
Total liabilities	19,072	18,247
EQUITY		
Equity attributable to owners of the parent		
Share capital	1,380	1,380
Capital surplus	2,137	2,137
Treasury shares	(1,373)	(1,373)
Retained earnings	3,426	4,510
Other components of equity	1,121	1,448
Total equity attributable to owners of the parent	6,692	8,104
Non-controlling interests	4	(23)
Total equity	6,697	8,080
Total liabilities and equity	25,770	26,327

**(2) Condensed Quarterly Consolidated Statements of Operations and
Condensed Quarterly Consolidated Statements of Comprehensive Income
Condensed Interim Consolidated Statements of Operations
Six Months Ended June 30**

(Millions of yen, rounded down to the nearest million)

	Six months ended June 30, 2017	Six months ended June 30, 2018
Revenues	18,031	19,985
Cost of sales	11,325	12,056
Gross profit	6,705	7,929
Selling, general and administrative expenses	5,126	5,803
Other income	86	5
Other expenses	56	15
Operating income	1,609	2,115
Financial income	4	5
Financial expenses	57	49
Equity in earnings of associates	—	26
Income before income taxes	1,556	2,098
Income taxes	545	752
Net income	1,010	1,345
(Attributable to)		
Owners of the parent	1,016	1,374
Non-controlling interests	(5)	(28)
Total	1,010	1,345
		(Yen)
Earnings per share attributable to owners of the parent		
Basic earnings per share	9.62	13.01
Diluted earnings per share	—	—

Three Months Ended June 30

(Millions of yen, rounded down to the nearest million)

	Three months ended June 30, 2017	Three months ended June 30, 2018
Revenues	9,275	10,342
Cost of sales	5,691	6,162
Gross profit	3,583	4,179
Selling, general and administrative expenses	2,652	2,914
Other income	18	2
Other expenses	38	14
Operating income	911	1,253
Financial income	1	2
Financial expenses	26	14
Equity in earnings of affiliates	—	3
Income before income taxes	886	1,245
Income taxes	288	432
Net income	597	812
(Attributable to)		
Owners of the parent	602	824
Non-controlling interests	(5)	(11)
Total	597	812
		(Yen)
Earnings per share attributable to owners of the parent		
Basic earnings per share	5.71	7.80
Diluted earnings per share	—	—

Condensed Interim Consolidated Statements of Comprehensive Income
Six Months Ended June 30

(Millions of yen, rounded down to the nearest million)

	Six months ended June 30, 2017	Six months ended June 30, 2018
Net income	1,010	1,345
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	1,046	385
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(0)	(0)
Total other comprehensive income	1,046	385
Total comprehensive income	2,057	1,731
(Attributable to)		
Owners of the parent	2,062	1,759
Non-controlling interests	(5)	(28)
Comprehensive income	2,057	1,731

Condensed Quarterly Consolidated Statements of Comprehensive Income
Three Months Ended June 30

(Millions of yen, rounded down to the nearest million)

	Three months ended June 30, 2017	Three months ended June 30, 2018
Net income	597	812
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	685	542
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(0)	1
Total other comprehensive income	685	544
Total comprehensive income	1,283	1,356
(Attributable to)		
Owners of the parent	1,288	1,368
Non-controlling interests	(5)	(11)
Comprehensive income	1,283	1,356

(3) Condensed Interim Consolidated Statements of Changes in Equity

Six Months Ended June 30, 2017

(Millions of yen, rounded down to the nearest million)

	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total equity attributable to owners of the parent		
January 1, 2017	1,380	2,137	(1,373)	1,952	683	4,780	—	4,780
Net income				1,016	—	1,016	(5)	1,010
Other comprehensive income					1,046	1,046	—	1,046
Total comprehensive income	—	—	—	1,016	1,046	2,062	(5)	2,057
Dividends from surplus				(306)	—	(306)		(306)
Change due to business combination							16	16
Total transactions with the owners	—	—	—	(306)	—	(306)	16	(289)
June 30, 2017	1,380	2,137	(1,373)	2,662	1,729	6,536	11	6,548

Six Months Ended June 30, 2018

(Millions of yen, rounded down to the nearest million)

	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total equity attributable to owners of the parent		
January 1, 2018	1,380	2,137	(1,373)	3,426	1,121	6,692	4	6,697
Net income				1,374	—	1,374	(28)	1,345
Other comprehensive income					385	385	—	385
Total comprehensive income	—	—	—	1,374	385	1,759	(28)	1,731
Dividends from surplus				(348)		(348)		(348)
Transfer from other components of equity to retained earnings				58	(58)	—		—
Total transactions with the owners	—	—	—	(289)	(58)	(348)	—	(348)
June 30, 2018	1,380	2,137	(1,373)	4,510	1,448	8,104	(23)	8,080

(4) Condensed Interim Consolidated Statements of Cash Flow

(Millions of yen, rounded down to the nearest million)

	Six months ended June 30, 2017	Six months ended June 30, 2018
Cash flow from operating activities		
Income before income taxes	1,556	2,098
Depreciation and amortization	336	327
Loss on impairment	3	8
Financial income and financial expenses	54	43
Equity in (earnings) losses of associates	—	(26)
Decrease (increase) in trade and other receivables	(422)	(127)
Decrease (increase) in inventories	(122)	(110)
Increase (decrease) in trade and other payables	33	322
Other	18	203
Subtotal	1,457	2,740
Interest and dividends received	0	4
Interest paid	(48)	(44)
Income tax refund	393	17
Income taxes paid	(410)	(779)
Net cash provided by operating activities	1,391	1,938
Cash flow from investing activities		
Payments for acquisition of property, plant and equipment	(857)	(112)
Payments for acquisition of intangible assets	(122)	(365)
Payments for acquisition of investment securities	(490)	(120)
Proceeds from sale of investment securities	—	154
Payments for acquisition of subsidiary stock	(484)	—
Payments for security deposits and guarantees	(484)	(61)
Proceeds from refund of security deposits and guarantees	—	45
Payments for fulfillment of asset retirement obligations	(48)	—
Other	(11)	(27)
Net cash provided by (used in) investing activities	(2,499)	(487)
Cash flow from financing activities		
Increase (decrease) in short-term financial liabilities	785	(493)
Proceeds from long-term financial liabilities	3,830	—
Repayment of long-term financial liabilities	(1,334)	(919)
Payments of cash dividends	(269)	(350)
Other	(54)	(55)
Net cash provided by (used in) financing activities	2,956	(1,818)
Cash and cash equivalents translation adjustment	(0)	(0)
Net increase (decrease) in cash and cash equivalents	1,848	(367)
Cash and cash equivalents at beginning of period	1,082	1,654
Cash and cash equivalents at end of period	2,931	1,286

(5) Notes to Condensed Quarterly Consolidated Financial Statements

(Changes in Accounting Policies)

The accounting policies applied by the Group to these condensed quarterly consolidated financial statements are the same as the accounting policies applied to the consolidated financial statements for the previous fiscal year, except for the following.

Income taxes for the six months ended June 30, 2018 are calculated using the estimated average annual effective tax rate.

As of the three months ended March 31, 2018, the Group has adopted IFRS 15 “Revenue from Contracts with Customers” (issued in May 2014) and “Clarifications to IFRS 15” (issued in April 2016) (together, hereinafter “IFRS 15”). In accordance with the adoption of IFRS 15, revenue generated from contracts with customers is recognized based on the following five-step model.

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when the entity satisfies a performance obligation

The Group identifies the performance obligations based on the contract with the customer for each of the services to be provided and recognizes revenue upon satisfaction of the performance obligation or over a certain period of time according to the degree of progress of satisfaction of the performance obligation. Revenues are reduced for refunds expected in the future.

The adoption of IFRS 15 has no material impact on the Group’s business results and financial condition.

(Notes Regarding Assumption of Going Concern)

None applicable

(Significant Subsequent Events)

None applicable